SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57482; File No. SR-Phlx-2007-69)

March 12, 2008

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2 Thereto, Relating to Obvious Errors

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on September 4, 2007, the Philadelphia Stock Exchange, Inc. filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. The Phlx filed Amendment No. 1 to the proposal on February 29, 2008. On March 11, 2008, the Phlx filed Amendment No. 2 to the proposal. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Exchange Rule 1092, Obvious Errors, to: (i) change the definition of Theoretical Price to mean either the last National Best Bid price with respect to an erroneous sell transaction or the last National Best Offer price with respect to an erroneous buy transaction, just prior to the trade; (ii) allow an Options Exchange Official[3] to establish the Theoretical Price when there are no quotes for comparison purposes, or when the National Best Bid/Offer ("NBBO") for the affected series, just prior to the erroneous transaction, was at least

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 See Exchange Rule 1(pp).

two times the permitted bid/ask differential under Exchange Rule 1014(c)(1)(A)(i)(a); (iii) establish the Theoretical Price for transactions occurring as part of the Exchange's automated opening system as the first quote after the transaction(s) in question that does not reflect the erroneous transaction(s); (iv) determine the average quote width by adding the quote widths of sample quotations at regular 15-second intervals during the two minutes preceding and following an erroneous transaction; (v) delete the provision pertaining to trades that are automatically executed when the specialist or Registered Options Trader ("ROT") sells $.10 or more below parity; (vi) permit nullification of transactions that occur during trading halts on the Exchange or in the underlying security in certain situations; and (vii) increase the time period within which a party to an erroneous transaction must notify Market Surveillance that they believe they are a party to a transaction resulting from an obvious error, and establish a specific notification time period for the opening.

The text of the proposed rule change is available at the Exchange, the Commission's Public Reference Room, and www.phlx.com.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

Accordingly, the proposal would re-define "Theoretical Price" to mean either the last National Best Bid price with respect to an erroneous sell transaction or the last National Best Offer price with respect to an erroneous buy transaction, just prior to the trade. The purpose of this provision is to establish a Theoretical Price that is clearly defined when there are quotations to compare to the erroneous transaction price, and to eliminate the scenario above that arises from the "mid-point" test when the NBBO is particularly wide.

The proposal also would permit an Options Exchange Official to establish the Theoretical Price when there are no quotes available for comparison purposes, or when the bid/ask differential of the NBBO for the affected series, just prior to the erroneous transaction, was at least two times the permitted bid/ask differential under Rule 1014(c)(1)(A)(i)(a).[4] In each such circumstance, the Theoretical Price would be determined by an Options Exchange Official. In order to expedite the process, the current requirement for Market Surveillance input would be deleted.

The Exchange believes that the objective standard for the determination of a "wide market" based on existing permissible bid/ask differentials provides a sound guideline for

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4 Phlx Rule 1014(c)(1)(A)(i)(a) permits a difference of no more than $.25 between the bid and the offer for each option contract for which the prevailing bid is less than $2; no more than $.40 where the prevailing bid is $2 or more but less than $5; no more than $.50 where the prevailing bid is $5 or more but less than $10; no more than $.80 where the prevailing bid is $10 or more but less than $20; and no more than $1 where the prevailing bid is $20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded up to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

Options Exchange Officials in determining Theoretical Price when there are no quotes for comparison purposes.

The proposed rule change also would state that for transactions occurring as part of the Exchange's automated opening system, the Theoretical Price would be the first quote after the transaction(s) in question that does not reflect the erroneous transaction(s).

Erroneous Quote in Primary Underlying Market

Currently, in order for an options trade to be nullified or adjusted due to an erroneous quote in the primary market for the underlying security, Market Surveillance is required to conduct complex and cumbersome research involving the average quote width in the underlying quote during the two minutes preceding and following the transaction.

In order to streamline and expedite the process, the proposal would amend this provision such that Market Surveillance would not be required to review each quote during this time period. Instead, the average quote width would be determined by adding the quote widths of sample quotations at regular 15-second intervals during the four minute time period referenced above, and dividing by the number of quotation samples used.

Transactions During Trading Halts

The proposed rule change would permit nullification of transactions that occur during trading halts on the Exchange or in the primary market for the underlying security. Specifically, the Exchange proposes to adopt new Rule 1092(c)(iv), which would provide that trades would be nullified when: (i) the trade occurred during a trading halt in the affected option on the Exchange; (ii) respecting equity options (including options overlying ETFs), the trade occurred during a trading halt on the primary market for the underlying security; or (iii) respecting index